FINANCIAL OPERATIONS OF OHIO FARMER OWNED ELEVATORS DURING THE FISCAL YEAR 1947-48

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Foreword

In the fall of 1929, the Rural Economics Department of Ohio State University issued a bulletin summarizing the financial operations of 119 farmer owned elevator companies for the preceding fiscal year. Each year since, with the exception of 1947, has seen a similar bulletin covering the operations of some 135 or more companies. This present bulletin is the 19th of the series, but contains only 128 companies because of the writer's late start on the job and time did not permit contacting all companies.

The reader should note that the data do not all fall in any one 12-month period. Perhaps 60 percent of the companies use the calendar year as their fiscal year; others end the fiscal year November 15 or 30, January 31, or at the end of April, May, or June, and we must perforce for any company use the data for their fiscal year.

The tables given below, in addition to comparative data from earlier bulletins, are based on the following:

1. The main balance sheet and income and expense items from 128 companies, operating 172 plants.

2. Detailed analysis of expense items from 82 companies.

3. Commodity sales and gross profits on each commodity taken from reports of 74 companies.

In view of the influence of volume of business on expense ratios and on profits, the companies from the beginning have been divided into groups based upon volume. The general increase in dollar volume of business of farmer owned elevators has necessitated a shifting upward of the dividing line between the groups. In this bulletin the companies have been grouped as follows:

Companies operating one plant each:

Group I - All below $300,000 in volume
Group II - Those between $300,000 and $450,000 in volume.
Group III- Those between $450,000 and $600,000 in volume.
Group IV - Those between $600,000 and $900,000 in volume.
Group V - Those above $900,000 in volume.

Companies operating two or more plants each:

Group VI - Those below $900,000 in volume
Group VII- Those above $900,000 in volume

Chapter I

A Preliminary Picture

It still is true that the war's ending has not ended the problems created by the war. The war's destruction and the destitution in Western Europe have led to continuance of government large-scale buying; shortages still persist, though in diminishing degree. Even with the ending of controls no manager can yet plan his future operations so clearly as he could in the late 30's.

However, in spite of shortages and confusions, dollar volume of business has climbed in recent years to unheard of levels; farmer elevators in the past three years have made more net savings than ever before in their history; in spite of local problems, sometimes difficult, this prosperity is widespread in some years every company made net savings, and in this past year, 1947-48, that was true of all but one company.

The data for the year 1946-47 was not assembled, but data from 35 companies indicated a 50 percent increase in net savings over 1945-46. On the basis of this sample, one may estimate that the $17,375 net savings of 1945-46 advanced to some $25,000 to $26,000 in 1946-47. The figures now assembled from 128 companies show an average net savings of $24,470 for 1947-48, which checks with the impressions gathered from many managers that for the last 12 to 18 months it has not been so easy to make money as it once was.

The summary for the 128 companies for 1947-48 follows:

Table I

Gains and Losses by Groups - Farmers' Elevators of Ohio 1947-48

Group	No. in Group	No. Showing Savings	Net Savings of Group	Net Savings Per Company	Savings Per Dollar of sales	of Net Worth
I	16	16	$ 134,989	$ 8,437	3.5¢	16.6¢
II	20	20	325,663	16,283	4.3	25.3
III	20	19	319,660	15,983	3.0	22.2
IV	29	29	789,357	27,219	3.7	27.6
V	15	15	486,610	32,441	2.9	29.1
Total I to V	100	99	2,056,279	20,563	3.45	25.5
VI	13	13	347,889	26,761	3.4	22.6
VII	15	15	727,974	48,532	3.4	36.4
Total VI & VII	28	28	1,075,863	38,424	3.4	30.4
Grand Total	128	127	$3,132,142	$ 24,470	3.43¢	27.0¢

Remembering that the big jump in volume and savings came in 1946-47 rather than in 1947-48, we may note the following comparisons with two years ago:

1. Comparison of these figures with those for the same 127 companies two years ago indicates about 38.5 percent increase in net savings in the two years.

2. Further examination of the two tables shows that the single plant companies increased their net savings by 40 percent while the multiple plant companies increased by about 35 percent.

3. Every group but one made net savings of 3 percent of sales or more, with the 128 companies averaging a net of 3.43 percent of sales.

4. When compared with resources used in making these savings, we find that net savings were 18.7 percent of total resources used in business or 26.9 percent of net worth.

Elevator history during the past several years is presented in Table II below.

Table II

Comparative Data from Ohio Farmer Elevator Operations
Averages per Company, Selected Years from 1928 to 1948

	28-29	32-33	38-39	43-44	45-46	47-48
Volume in Thousands of Dollars	170	83	169	405	510	714
Gross Trading Margin (in dollars)	13,077	9,253	16,284	33,931	39,883	55,326
Total Expenses in Percent of Sales	7.6	13.1	9.8	6.3	5.8	5.5
Net Savings per Company (in dollars)	2,991	635	3,319	15,107	17,395	24,470

1. Dollar volume per company in the two years since 1946 has advanced by 37.8 percent - nearly double the rate of advance in the two years preceding.

2. Dollars of trading margin per company have advanced from $39,883 to $55,326, or very close to the same percent as volume.

3. The increase in volume has been more rapid than the increase in total expense as is shown by the rather steady decline of expense ratios from 6.3 percent in 1943-44 through 5.9 and 5.8 to 5.5 in 1947-48 (of which more later.)

The dollar volume and net savings per company have been on the upswing since 1941. The figure below indicates that the average volume per company has increased $3\frac{1}{2}$ times since 1941 and net savings have increased more than $4\frac{1}{2}$ times during the same period.

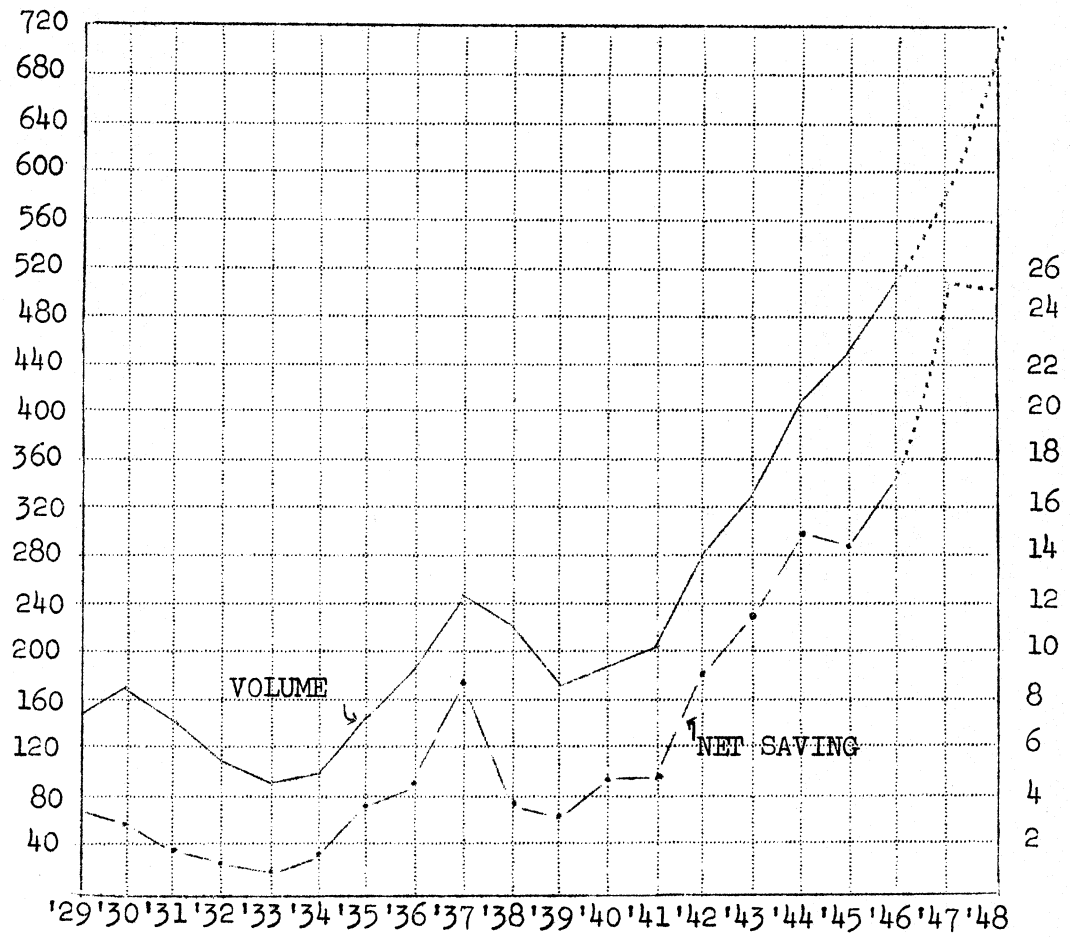

Fig. 1. Volume of business of farmers' elevators of Ohio 1929-48*. At left sales, and at right net savings, in thousands of dollars per company.

* 1947 figures estimated on basis of sample survey covering 35 companies.

Chapter II

Income of Farmer Owned Elevators of Ohio

A. Principle Sources of Income.

The two tables below present the general picture, the first giving the totals for the different groups, and the next presenting the same data in averages per company in each group.

"Trading margin" as used in our tables means the gross profit made on the various grains and commodities handled, i.e., selling price less buying price of the goods. Wherever we find "Discounts Received" given as a separate source of income we have added that to trading margin; likewise wherever we have found "Discounts Allowed" as an item of expense, we have taken it out of expense and subtracted it from trading margins.

"Other Income" includes mainly receipts for trucking or delivery and receipts from central organizations in dividends on stock or patronage. Lesser but still substantial amounts are recoveries of debts written off in earlier years, interest on receivables and investments and less frequently, rents received.

Table III

Total Income from Each of the Major Sources by Groups
for the Ohio Farmer Elevators, 1947-48

Group	No. Companies	Sales	Trading Margin	Grinding Income	Other Income	Total Income
I	16	$ 3,819,375	$ 391,236	$ 41,281	$ 17,939	$ 450,456
II	20	7,562,533	680,359	70,840	32,821	784,020
III	21	10,490,432	793,404	99,972	38,744	921,020
IV	29	21,158,138	1,668,545	124,107	107,061	1,899,713
V	15	16,532,642	1,066,847	96,121	48,322	1,211,290
Total I to V	100	59,563,120	4,600,391	421,221	244,887	5,266,499
VI	13	10,203,861	849,970	100,647	47,583	998,200
VII	15	21,648,651	1,631,409	116,167	145,995	1,893,571
Total VI & VII	28	31,852,512	2,481,379	216,814	193,578	2,891,771
Grand Total	128	$91,415,632	$7,081,770	$638,035	$438,465	$8,158,270

These 128 companies had 37.8 percent larger volume of business in 1947-48 than two years before. On the basis of these figures the estimated volume of business of 137 companies covered in the 1945-46 report would be about 97 million dollars in 1947-48, or an increase of 27 million.

A further comparison shows that total trading margins, total grinding income, and also miscellaneous income are each higher than two years before, with gross income some 35% higher than two years before.

As the companies constituting each group are not the same as two years before, no worth while comparisons of groups is possible.

From 1937 on, grinding income increased steadily until 1944, the declined somewhat the next few years but has climbed again this year. Dollar receipts each year were as follows:

Year	No. of Companies	Receipts	Year	No. of Companies	Receipts
1930-31	151	$342,000	1942-43	145	$581,819
1932-33	147	234,000	1943-44	138	659,558'
1934-35	141	171,000	1944-45	137	607,723
1936-37	150	302,600	1945-46	137	602,929
1938-39	145	369,300	1946-47	---	----
1940-41	145	410,103	1947-48	128	638,035

The figures presented in Table III give one a picture of the size and importance of the Farmer Elevator Movement of Ohio. Probably the general reader, however, is thinking of what this means as applied to his particular company. Table IV presents the same data as Table III, but in averages per company in the various groups. If your company operates only at one point, select for comparison the group among the first five whose volume of business is nearest to that of your company; if you operate two or more plants, compare with VII if your volume is in excess of $900,000 or with VI if it is less.

Table IV

Major Sources of Incomes of Ohio Farmer Elevators in Averages per Company in each groups, 1947-48

Group	Sales	Trading Margin	Grinding Income	Other Income	Total Income	What % of Total Income is from Trading Margin	What % of Sales is Total Income
I	$ 238,711	$ 24,453	$2,580	$1,121	$ 28,154	86.9	11.8
II	378,127	34,018	3,542	1,641	38,201	86.8	10.4
III	524,522	39,670	4,444	1,937	46,051	86.1	8.8
IV	729,591	57,536	4,279	3,692	65,507	87.8	9.0
V	1,102,176	71,123	6,408	3,222	80,753	88.1	7.3
Average I to V	595,631	46,004	4,212	2,449	52,665	87.4	8.8
VI	784,912	65,382	7,742	3,661	76,785	85.2	9.8
VII	1,443,243	108,761	7,744	9,733	126,238	86.2	8.7
Average VI & VII	1,137,590	88,621	7,743	6,914	103,278	85.8	9.1
Ave. All Groups	714,185	55,326	4,985	3,425	63,736	86.8	8.9

1. With this table placed beside that of two years earlier, one notes again that the average per company of the three sources of income is materially higher than two years before; the jump in trading margin from $39,883 to $55,326 far over shadows in percentage, as well as dollars, the increases from other sources, This shows also that a larger percent of total income for every group comes from trading margin.

2. Total gross income, which four years ago was 10 percent of sales and two years ago was 9.2 percent, was this year 8.9. Single plant companies averaged 8.8 percent with multiple plant companies averaging 9.1. The range for single plant companies was from 11.8 to 7.3 and for multiple plant companies 9.8 to 8.7.

B. Comparisons of income sources with those of earlier years.

In Table V changes in dollar volume and income during and since the war can be compared with each other and with those of four earlier years.

Table V

Income of Farmer Owned Elevators for Several of the Years 1928-48 as Shown by the Totals for the Whole Number in Each Year's Data

Year	1928-29	1932-33	1937-38	1940-41
No. Companies	119	146	149	146
Sales	$18,538,504	$12,282,453	$30,990,376	$28,693,685
Trading Margin	1,613,227	1,372,047	2,454,088	2,732,753
Grainding	218,100	234,206	323,515	410,103
Other Income	98,960	105,245	132,912	161,221
Total Income	$ 1,930,287	$ 1,711,498	$ 2,910,515	$ 3,304,077

Year	1943-44	1944-45	1945-46	1947-48
No. Companies	138	137	137	128
Sales	$55,973,749	$61,451,102	$69,931,247	$91,415,632
Trading Margin	4,682,495	4,686,383	5,463,920	7,081,770
Grainding	659,558	607,723	602,929	638,035
Other Income	279,134	308,899	344,746	438,465
Total Income	$ 5,621,187	$ 5,603,005	$ 6,411,595	$ 8,158,270

In past years the increase in grinding income had been a factor, but leveled off in 1944, decline in the next two years and has made a small increase this year. "Other Income" has steadily increased, the increase being largely in the three fields of patronage dividends from central cooperatives, interest on U. S. Bonds, and receipts from hauling (though part of the receipts from hauling appear in widened margins of grain and supplies hauled.)

C. Margins on commodities handled.

Margins on grain and supplies handled provided 86.8 percent of total income. It is therefore, a point of major interest to discover the extent to which various commodities contribute to income and what percent of gross profit each carries on the average. Here is one place every manager should keep accurate records and should use his pencil to be sure that he is not making "dead timber" of some commodity which should be helping to pay operating costs.

Table VI

Commodity Sales and Trading Margin in Farmers' Elevators as shown by Data from 74 Companies

Commodity	1947-48 No.	1947-48 Sales	1947-48 Margin	Percent Margin	Margin in Preceding Years 1945-46	1944-45	1938-39
Wheat	73	$14,271,012	$ 515,924	3.6	3.5	3.4	4.2
Corn	66	8,480,607	486,677	5.7	6.3	6.6	6.8
Oats	63	1,991,960	185,513	9.3	7.5	6.2	12.5
Other Grains	15	389,573	25,792	6.6	5.3	5.4	5.2
All Grains		$25,133,152	$1,213,906	4.83	4.6	4.5	5.8
Soybeans	63	8,150,304	408,051	5.0	3.6	2.9	6.9
Hay & Straw	5	9,683	2,025	20.9	14.0	12.6	19.3
Livestock	8	387,205	8,861	2.2	1.0	1.0	1.3
Wool	2	10,405	162	1.5	7.2	2.8	8.3
Total Sales of Farm Products		$33,690,749	$1,633,005	4.8	4.3	3.8	5.5
Flour & Feed	59	6,942,906	882,734	12.7	12.8	12.3	13.8
Seed	62	1,231,067	163,245	13.2	12.3	12.2	10.6
Fertilizer	49	1,470,644	165,363	11.2	10.9	11.4	13.2
Coal	66	2,054,723	376,552	18.3	20.7	18.3	17.6
Bldg. Material	19	398,928	87,562	21.9	28.0	29.4	17.1
Farm Machinery	9	757,870	124,861	16.4	25.5	22.6	15.9
Hardware	19	901,928	158,135	17.5	20.3	18.1	19.0
Twine	27	46,053	6,076	13.1	13.9	16.5	10.2
Fence & Posts	38	289,931	50,404	17.3	20.4	19.7	12.1
Gas & Oil	23	652,523	85,578	13.1	15.0	14.9	11.2
Lumber	3	654,437	168,362	25.7	19.4	17.4	19.4
Salt	19	19,601	4,051	20.6	18.4	19.4	--
Gen. Merchandise	50	2,340,812	280,703	11.9	14.8	12.7	14.3
Total Sales of Farm Supplies		$17,761,423	$2,553,626	14.4	15.0	14.1	14.2
Grand Total		$51,452,172	$4,186,631	8.1	7.8	7.6	9.7

Table Vi above is based on data from 74 companies, or 58 percent of the whole number, doing $51,452,172 of business or 56.2 percent of the total volume covered. Those 74 companies had an average margin of gross sales of 8.1 percent in comparison with 7.7 for the entire group. Thus these companies are not exactly typical because they did not have their proportionate share of volume yet had a higher margin of gross sales.

In examining the table, the reader may read the margin column as "percent of sales" or as "cents per dollar of sales."

Such a table as this is full of worthwhile suggestions, and several times has proved to be helpful, in fact almost necessary, in answering certain important questions; nevertheless, it should be examined with considerable allowance for yearly variations, especially in commodities handled in small volume.

A little study of this table brings out the fact that almost two-thirds of the total sales arose from farm products sold for the patrons, and one-third from farm supplies sold to local patrons. The percentage of farm supplies would be somewhat increased if we had any data on the amount of corn and oats and even wheat sold locally; one should recognize too, that part of the reason for higher margins on corn and oats than on wheat or beans is that much more - in some areas all - of the corn and oats is sold locally and becomes really "farm supplies."

Other comments might include these:

1. During the 30's, the share which farm supplies contributed to total volume was steadily rising and was approaching 45 percent. During the war, with the scarcity of farm supplies and an increase in crop production, the dollar volume of farm supplies dropped to about one-third of the total volume of sales. The continued huge demand for and the large production of farm crops the past few years have had a major influence on farm products. continuing to constitute two-thirds of the dollar volume.

2. Machinery sales for those companies handling this item have tripled but the margin has decreased.

3. General merchandise must be recognized not as a separate group distinct from feed, coal, fertilizer, etc. The audits of most companies do not segregate all the items in our list. Many companies in the grain area report the grain separately, with all the rest combined in one to three or four other items. Thus, general merchandise has in it some of every one of the other farm supply items, and in most years its average margin approximates very closely the average for all farm supplies.

D. How do the various volume groups compare in gross margins received?

Exact comparison of this year's figures with those of former years cannot be made because many companies in this year's groupsing are not in the same group as in former years. However, the table brings out the fact that margins have been fairly constant the past four years, with the larger volume companies taking less margin than the smaller companies.

The average trading margin for all companies in 1947-48 was 7.75

percent. One will note that the average group trading margins for the individual plant companies ranged from 10.2 to 6.5 percent, with the average for the 100 companies being 7.72, a drop of 0.18 from 1946. The multiple plant companies increased their margin slightly for the same period.

Table VII

Trading Margins of 1947-48
Compared with Those of Earlier Years

	1947-48			Percent of Trading Margin				
Group	No.Co's.	Sales	Trad.Marg.	1947-8	1945-6	1944-5	1943-4	1937-8
I	16	$ 3,819.375	$ 291,236	10.2	9.8	10.5	12.4	9.2
II	20	7,562,533	680,359	9.0	8.1	7.9	9.6	---
III	20	10,490,432	793,404	7.6	8.1	7.9	8.8	7.7
IV	29	21,158,138	1,668,545	7.9	8.0	8.0	8.6	7.3
V	15	16,532,642	1,066,847	6.5	7.3	7.1	7.3	---
Groups I to V	100	59,563,120	4,600,391	7.72	7.9	7.8	8.5	---
VI	13	10,203,861	849,970	8.3	7.5	7.6	8.1	---
VII	15	21,648,651	1,631,409	7.5	7.8	7.3	8.2	---
Groups VI & VII	28	31,852,512	2,481,379	7.79	7.7	7.4	8.2	8.2
Totals & Averages	128	$91,415,632	$7,081,770	7.75	7.8	7.6	8.4	7.9

Chapter III

Expenses of Operation

A general picture of the relation of total expense to gross income is presented in Table VIII below. The fact that Groups VI and VII are made up of companies operating more than one plant each makes worth-while comparisons on the plant basis, as well as on the company basis. The 13 companies in Group VI operate 34 plants and the 15 companies in VII operate 38 plants.

Table VIII

Income and Expense of Ohio Farmer Owned Elevators 1947-48
Average per Company by Groups

Group	No. in Group	Sales	Gross Income	Total Expense	Net Savings	Ratio*
I	16	$ 238,711	$ 28,154	$ 19,717	$ 8,437	70.0
II	20	378,127	39,201	22,918	16,283	58.5
III	20	524,522	46,051	30,068	15,983	65.3
IV	29	729,591	65,507	38,288	27,219	58.4
V	15	1,102,176	80,753	48,312	32,441	59.8
I to V	100	595,631	52,665	32,102	20,563	61.0
VI	13	784,912	76,785	50,024	26,761	65.1
VII	15	1,443,243	126,238	77,706	48,532	61.6
Average VI & VII	28	1,137,590	103,278	64,854	38,424	62.8
Average per Co.	128	714,185	63,736	39,266	24,470	61.6
Average per Plant	172	531,486	47,432	29,222	18,210	61.6
Ave.per Plant in VI & VII	72	442,396	40,163	25,221	14,942	62.8

* The percentage of gross income which was required to pay total expenses.

In previous chapters we pointed out that Dollar volume in 1947-48 had increased 38% over that of 2 years ago and that Gross income for the same period had increased 35%

Expenses likewise showed a considerable increase for the same period; the average per company amounted to 33.5 percent.

Net income per company climbed from $17,395 in 1945-46 to $24,470 in 1947-48 a gain of 38.5 percent.

In Net gain per company the single plant companies showed an increase of 43.7% over the figures of 2 years before: the multiple plant companies for the same period had increased their savings by 35.2 percent, a reversal of the situation two years before.

The changes in the major items for 127 identical companies for 1943-44, 1944-45, 1945-46 and 1947-48 are picture below.

	1943-44	1944-45	1945-46	1947-48
Sales	$52,829,999	$57,813,146	$66,069,229	$91,025,366
Trading Margin	4,373,656	4,359,483	5,106,341	7,057,533
% of Margin	8.3	7.54	7.7	7.75
Total Income	5,251,717	5,227,253	6,004,168	8,128,798
Total Expense	3,264,813	3,392,886	3,748,374	5,006,197
% of Expense	6.2	5.9	5.7	5.5
Net Savings	1,986,905	1,834,367	2,255,794	3,126,836

Any attempt to control expense or to reduce it at any point calls for something more than totals of expenses. Hence in Tables IX and X we offer pictures of the distribution of expense among the major items. Table IX on the next page follows auditing practice of separating out interest, depreciation reserve, and bad debt reserve, from the operating expense.

A comparison with the corresponding table for a year earlier brings out the following comments:

1. Interest Expense, which had declined for years, reversed its trends 2 years ago, and advanced from $49 per company to $80 per company: in 1947-48 it jumped to $209. Obviously this increase was due to the large number of companies that increased their notes payable through expanded building improvements.

2. Depreciation Reserves set up in 1947-48 are considerably higher, advancing from $1975 per company to $2827.

3. Bad Debt allowances for the year averaged $260 per company compared to $262 two years ago in spite of a 69 percent increase in receivables

4. The real increase in expense came, as it has in other years, in operating expense -- at what points in operating expense will appear in Table X and the comments thereon.

Table IX

Major Expense - Farmers' Elevator Companies 1947-48
Averages for 128 Companies

Group	No. in Group	Sales	Inter-est	Depre-ciation	Bad Debts	Oper. Expense	Total Expense	Exp. Ratio* Oper.	Exp. Ratio* Total
I	16	$ 238,711	44	$1,242	$203	$18,228	$19,717	7.6	8.3
II	20	378,127	136	1,496	142	21,144	22,918	5.6	6.1
III	20	524,522	164	2,099	189	27,616	30,068	5.3	5.7
IV	29	729,591	70	2,837	185	35,196	38,288	4.8	5.2
V	15	1,102,176	438	4,470	444	42,960	48,312	3.9	4.4
Average I to V	100	595,631	153	2,411	219	29,319	32,102	4.9	5.4
VI	13	784,912	150	3,039	432	46,403	50,024	5.9	6.4
VII	15	1,443,243	632	5,415	387	71,272	77,706	4.9	5.4
Average VI & VII	28	1,137,590	408	4,312	408	59,726	64,854	5.2	5.7
Ave. for All Companies	128	714,285	209	2,827	260	35,971	39,267	5.0	5.5
Average per Plant	172	531,486	155	2,104	194	26,769	29,222	5.0	5.5
Ave. per Plant in VI & VII	72	442,396	159	1,677	158	23,227	25,221	5.2	5.7

*Expense expressed in cents per dollar of sales.

In Table X, Labor includes manager and office salary and directors' fees as well as plant labor; Power includes light and water; Insurance includes workmen's compensation as well as fire, tornado and burglary insurance; Taxes include property tax, payroll tax (unemployment and old age), and franchise taxes, but not federal income tax; Advertising includes costs of annual meeting and good will contributions; Audit includes legal expense and auditor's making up of reports; Truck includes charges to owned trucks and hire of trucks; Supplies and Repairs includes all repairs and operating supplies bought except office supplies.

In examining Table X, one cannot pay much attention to minor variations, for they are often due to the fact that many audits reach us in condensed form which may omit certain items. The following comments seem worthy of attention:

1. Labor costs still continue to rise -- as expressed in dollars, and in percentages. Two years ago labor expense accounted for 60.2% of the total expense; while this year it advanced to 61.3 percent.

2. Depreciation allowances had fallen from 11.2 percent of total expense back in the early 30's through 9.2 percent in 1938-39, to a low in 1945 of 6.7 percent of total expense. In 1946 it advanced to 7.2 percent and this year to 7.3 percent.

This may easily deceive one. The dollar reserves for depreciation were $182,543 in average per year 1928-33, $212,227 per year 1934-38, and $240,392 per year 1939-43. The depreciation reserve for 1945 was $248,000, for 1946 $270,000 and 1947 - $361,830. The relative decline in depreciation expense has been due to the increase of other types of expense, rather than to any dollar reduction in depreciation set up.

3. Bad Debt Allowance, once 2.5 to 3.5 percent of total expense, averaged only 1.0 percent of expenses for each of the two years, 1945 and 46, and in 1948 dropped to .8 percent.

Table X

Percentage which each Expense Item is of the Total Expense
Data from 82 Companies

Item	1947-48	1945-46	1938-39	Item	1947-48	1945-46	1938-39
Labor	61.3	60.2	50.2	Truck	5.6	5.8	5.3
Power	5.6	6.7	7.8	Off. Supplies	1.0	1.1	1.6
Insurance	4.1	3.8	4.4	Rent	0.2	0.3	0.5
Taxes	3.1	3.7	5.4	Interest	0.5	0.3	2.0
Supplies	5.4	5.0	3.9	Depreciation	7.3	7.2	9.2
Advertising	1.9	1.3	1.4	Bad Debts	0.8	1.0	3.6
Tel. & Tel.	0.7	0.9	0.9	Licenses	0.3	0.2	0.2
Audit	0.7	0.7	0.8	Misc.	1.5	1.8	2.8

Chapter IV

The Financial Condition of the Farmer Elevator Companies of Ohio

After the general picture of the year's gains and losses as seen in Chapter I, a study of income and its sources in Chapter II, and an examination of expenses of operation in Chapter III, we are ready for the major question remaining- What then is the financial condition of this group as it ended the fiscal year?

First a word of explanation. In the early days of these companies the most common par value for the stock was $100, though even then some were issuing $50 and $25 shares. As they reorganized on the cooperative basis, many of them reduced the par value to $25, $20, and $10 per share. For the sake of uniformity in our study, we shall use the term "$100 share" to mean $100 par value of stock, whether that stock be in $100, $20, or $10 or other par value per share.

When we began this series of studies in 1929, $100 of par value of stock of the 119 companies whose data we then secured had a book value of $138. Of the entire number, 21 percent had deficits, mostly a hangover from the depression of the early 20's. The period 1930-32 did not help matters much and while our 1935 study found book value per $100 up to $142.66, the number having deficits was still more than 20 percent.

The changes in book value of the stock through the years are seen in the table below:

	No. of Companies Having Surpluses	No. of Companies Having Deficits	Value of $100 Share for Whole Group
1934-35	123	24	$142.66
1935-36	127	23	142.53
1936-37	138	12	164.33
1937-38	134	15	157.14
1938-39	134	13	157.43
1939-40	136	10	165.06
1940-41	136	10	166.11
1941-42	139	5	180.30
1942-43	141	3	187.73
1943-44	136	2	194.12
1944-45	136	1	196.98
1945-46	137	0	197.13
1947-48	128	0	201.65

Among comments to be made regarding this book value of $201.65 per $100 of stock outstanding ($2.01 for each dollar of stock) are the following:

1. The $201.65 is the value at the time of the audit. Many companies had not declared dividends on the stock and refunds on patronage until after the audit was completely set up. Hence, the book value of the stock as of the audit would be reduced by whatever dividends and refunds were declared later. This fact applies to the book values as given through the above table, and increasingly as one goes down the table, but has no bearing on the number having deficits.

2. This value of $201 per $100 of stock is far more conservatively stated than was the $138 of sixteen years ago or even the $142.66 of 1934. Plants have been depreciated, in some cases, to much below real value; inventories are more likely to be undervalued than overvalued. Often no valuation is added for operating supplies on hand or prepaid items.

3. Perhaps the most striking thing to note is the almost negligible increase in book value in face of a large increase in net worth during the past five years. The following brief table will throw some light on this:

Stock Outstanding, Surplus and Net Worth
for 127 Identical Companies for the Following Years:

Year Ending	Stock	Surplus	Net Worth
1944	$4,258,862	$4,057,813	$8,316,675
1945	4,538,531	4,384,026	8,922,557
1946	4,802,618	4,613,837	9,416,455
1948	5,733,388	5,825,064	11,558,452

We note that stock outstanding for these 127 companies has increased by $1,474,526 in the past five years or 34.6 percent. In 1935 the stock outstanding for 147 companies amounted to $3,898,156 while in 1943 it was $4,157,774 for 144 companies - a comparatively small increase for the eight-year period. This increase in stock during the past five years indicates that a number of companies have made definite efforts to get more of the farmers of their territory into the company either by sale of stock or more often by the "earning"of a share of stock by accumulated patronage dividends.

In the past five years, the stock in these 127 companies has advanced by $1,474,526, surplus has advanced $1,767, 251, making a total increase of net worth by $3,141,777.

Because capital stock and surpluses have made comparable increases during the past few years, the book value has not changed materially. As companies continue to increase their capital stock, one need not be surprised if book value per $100 of stock should decline as time goes on.

Each company's management may wish to compare its status with that of other companies of about the same volume of business. Table XI has been provided for that purpose.

Table XI

Surplus and Deficit Status of Ohio Farmers' Elevators
by Groups - End of Fiscal Year 1947-48

Group	No. in Group	No. with Surplus No.	No. with Surplus Amount	Ave. per Company	Book Value Range	Book Value Average
I	16	16	$ 376,753	$23,547	$115.15 - $348.45	$185.86
II	20	20	688,846	34,442	115.27 - 715.72	214.87
III	20	20	788,705	39,435	119.21 - 498.19	220.99
IV	29	29	1,420,491	48,982	124.26 - 820.64	198.84
V	15	15	894,052	59,603	117.34 - 1,018.45	214.59
Total I to V	100	100	4,168,847	41,688	115.15 - 1,018.45	206.68
VI	13	13	761,947	58,611	115.18 - 395.41	198.28
VII	15	15	924,920	61,661	135.82 - 272.87	185.84
Total VI & VII	28	28	1,686,867	60,245	115.18 - 395.41	191.05
Grand Total	128	128	$5,855,714	$45,748	$115.15 - 1,018.45	$201.65

The major items making up the resources used by these companies in handling a $91,415,000 business the past year are shown together with the liabilities standing against them.

Table XII

Resources and Liabilities of Farmer Owned Elevators
of Ohio, Selected Years 1944-48

	1943-44	1945-46	1947-48
Resources			
No. of Companies	138	137	128
Cash & Bank	$ 2,728,882	$3,518,480	$2,792,906
Net Receivables	1,510,513	1,542,441	2,355,410
Inventory	2,971,181	3,067,239	5,153,872
Net Plant	3,044,412	3,833,525	5,513,962
Investments	694,294	993,079	836,534
Other Assets	69,439	117,185	122,363
Total Assets	$ 11,018,721	$13,071,949	$16,775,045
Liabilities			
Notes Payable	$ 215,457	$ 268,045	$ 921,198
Dividends Payable	997,925	1,615,320	2,420,092
Income Tax Reserve	148,578	152,031	212,369
Other Payables	748,127	956,859	1,605,187
Net Worth	8,908,634	10,079,694	11,616,201
Total Liabilities	$11,018,721	$13,071,949	$16,775,047

The examination of Table XII indicates some startling changes in the past two years. After making the adjustments for the fact that only 128 of the companies are in this year's figures, we find--

1. A decline in cash resources of 16 percent.

2. An increase in receivables of 69 percent (the increase of volume by 38 percent accounts for part of this).

3. Inventory has increased in two years by 80 percent.

4. Net plant increased by more than 50 percent. The best estimate we can make for the write-off for depreciation for the two years is at least $700,000, which would indicate total additions to plant in the two years to have been in the neighborhood of $2,400,000.

5. In this increase of plant and inventory, evidently some bonds and saving accounts (perhaps a quarter million dollars) were utilized.

On the liabilities side, we note that -

1. Notes payable are higher by 240 percent - $921,000 for 127 companies compared with $268,000 for 137 companies.

2. Putting other payables and notes payable together we find in place of $1,225,000 of payables two years ago, that 1947-48 ended with $4,025,000 - more than three times the indebtedness of two years before - due to added building and inventory mainly.

3. Net worth was up by 15 percent, but had not increased so rapidly as total resources; of the resources used by these companies two years ago, they owned clear of indebtedness 77%, while today they own slightly more than 69%.

4. Realizing that the $2,420,092 of dividends payable represents, in the main, claims of local patrons, one can say that in stock surplus and claims for cash or partial payments, the people of the locality own $14,036,300 of the total resources of the company, or almost 84 percent.

How companies in the various groups share in these resources and liabilities is shown in Tables XIII and XIV.

As stated above, Table XII revealed some startling changes which have occured in the past two years. Although no accurate comparisons of groups this year with those of two years ago can be made, one will note that the comments generally apply to most groups.

Net worth per company rose from $73,575 to $90,754, an advance of 23 percent.

Table XIII

Resources of Ohio Farmer Owned Elevators 1947-48
Average per Company in Each Group

Group	Cash	Receiv-ables	Inven-tory	Plant Value	Invest-ments	Other Assets	Total Assets
I	$ 9,212	$ 9,326	$20,427	$18,968	$ 2,645	$ 261	$ 60,839
II	17,390	11,687	24,161	22,516	4,883	816	81,453
III	16,293	13,456	29,765	33,376	2,525	565	95,980
IV	29,537	17,348	36,266	39,536	10,029	615	133,331
V	23,371	18,772	49,321	76,123	6,668	1,535	175,790
Ave. I to V	20,282	14,368	31,969	37,097	5,813	726	110,255
VI	28,058	25,091	44,040	42,509	7,833	707	148,238
VII	26,663	39,498	92,298	83,442	10,224	2,703	254,828
Ave. VI & VII	27,311	32,809	69,892	64,437	9,114	1,776	205,339
Ave. per Company	21,819	18,402	40,265	43,078	6,535	956	131,055
Ave.per Plant	16,238	13,694	29,964	32,058	4,864	711	97,529
Ave. per Plant in VI & VII	10,621	12,759	27,180	25,059	3,544	691	79,854

Table XIV

Liabilities of Ohio Farm Owned Elevators 1947-48
Averages per Company in Each Group

Group	Notes Payable	Dividends Payable	Other Payables	Inc. Tax Reserve	Net Worth	Total Liabilities
I	$ 1,594	$ 3,176	$ 4,657	$ 441	$ 50,971	$ 60,839
II	2,867	7,756	4,684	1,721	64,425	81,453
III	2,826	10,615	9,638	872	72,029	95,980
IV	5,118	15,362	12,917	1,395	98,539	133,331
V	15,379	27,860	17,663	3,268	111,620	175,790
Ave. I to V	5,184	12,816	10,005	1,484	80,766	110,255
VI	1,561	18,480	8,672	1,279	118,246	148,238
VII	25,497	59,881	32,797	3,156	133,497	254,828
Ave. VI & VII	14,384	40,659	21,596	2,284	126,416	205,339
Ave. per Company	7,197	18,907	12,540	1,659	90,752	131,055
Ave. per Plant	5,356	14,070	9,332	1,235	67,536	97,529
Ave. per Plant In VI & VII	5,594	15,812	8,398	888	49,162	79,854

There is no such thing as an "average company," for a company that is average in one thing will not be average in all, or probably many, respects. We can, however, set up these averages found in Tables XIII and XIV in a balance sheet. To make a comparison of the 1947-48 balance sheet with that of 1945-46, the two balance sheets are shown below.

"Average Company"
Comparative Balance Sheet

Assets

	1945-46	Percent	1947-48	Percent
Cash	$25,686	26.9	$21,819	16.7
Receivables	11,259	11.8	18,402	14.0
Inventory	22,389	23.5	40,265	30.7
Plant Value	27,982	29.3	43,078	32.9
Investments	7,249	7.6	6,535	5.0
Other Assets	855	.9	956	.7
Total	$95,416	100.0	$131,055	100.0

Liabilities

	1945-46		1947-48	
Notes Payable	$ 1,957	2.0	7,197	5.5
Dividends Pay.	11,791	12.4	18,907	14.4
Inc. Tax Reserve	1,110	1.2	1,659	1.3
Other Payables	6,984	7.3	12,540	9.6
Net Worth	73,574	77.1	90,752	69.2
Total	$ 95,416	100.0	$131,055	100.0

The reader will observe that receivables have increased tremendously, while at the same time notes and other payables have doubled. Dividends payable have jumped considerably. Several companies are taking the opportunity to become properly capitalized by crediting a part of the patronage dividends toward capital stock - a step worthy of consideration by many other companies.

The reader will also observe that the average company has placed much more money into plant and inventory - the one to be approved in general, the other to be accepted with less confidence. Within limits which not many companies have exceeded, the improvements to plants are a step toward efficiency of operation, better display of merchandise, handling of a wider range of merchandise and in general a better service for the community.

With inventories up 80 percent and sales less than 40 percent over 2 years ago, one wonders if the difficulty of getting some goods in recent years may have made some companies too anxious to stock up when the opportunity came.

Chapter V

Miscellany

I. What sources contributed to the changed income?

Net gain per company 1945-46			$17,395
Increased trading margin	$15,443		
Increased grinding income	584		
Increased other income	910		
Total increase in income		$16,937	
Increased interest paid	129		
Increased depreciation	852		
Lessened bad debt reserve	- 2		
Increased operating expense	8,883		
Total increase in expenses		$ 9,862	
Net Gain increase over 1945-46			$7,075
Net gain per company 1947-48			$24,470

II. Volume of Business.

Volume of business for the 127 individual companies grew from $66,069,220 in 1945-46 to $91,025,366 the past year, an increase of 37.8 percent. Did all companies share in this growth?

Not equally, of course. Five of the 127 companies had a lower dollar volume than they did in 1945-46, 11 showed an increase of 10 percent or less, 20 had an increase of from 11 to 25 percent.

The increase in dollar volume could come from either, or both, of the following:

1. Increase in unit volume of grains and merchandise handled.
2. Increase in price per unit of grains and merchandise handled.

It happens that the prices of all grains and of most supplies handled in 1947 showed a marked increase over 1945, as is evidenced by the following table:

Commodity	1945 Index*	1947 Index*	Percent Increase
Wheat	168	257	53
Soybeans	230	348	51
Corn	186	310	67
Oats	182	253	39
Fertilizer	121	136	12
Equipment & Supplies	142	166	17
Seed	281	349	24
Feed	176	253	44
Farm Machinery	176	208	18

*(August 1909 - July 1914 = 100)

One can readily see that a major share of increase in dollar volume of 1947 has been due to price increases. If an elevator's dollar volume of business has not kept pace with the increase in prices of commodities handled, then the elevator has been losing trade even with a larger dollar volume.
Has your company actually increased its unit volume?

III Turnover.

1. Turnover of Inventories - Closing inventories for the past year averaged $40,265, or roughly 80 percent higher than 2 years before. A glance at the table below shows that even though inventories were steadily increasing, they were not increasing so rapidly as volume of sales, so that turnover was more and more rapid. This was true from 1940 to 1946; then what? In the past two years, inventories have nearly doubled, while dollar sales have advanced about 40 percent; down went turnover to 17.7 times, to equal which we have to go back to 1943.

Does this question of huge inventories along with higher unpaid patronage refunds and higher accounts receivable tie in with the general problem of reduced cash?

Year	Sales	Inventory	Turnover
1948	$714,185	$40,265	17.7
1946	510,447	22,389	22.8
1945	448,548	23,512	19.1
1944	405,590	21,530	18.8
1943	332,525	18,726	17.7
1942	271,404	19,272	14.1
1941	196,532	15,011	13.1
1940	183,442	14,071	13.0

2. Turnover of Current Assets - When we combine cash, receivables and inventory, we find that there was a turnover of 8.8 as compared to 8.6 for 1945-46.

3. Net plant values had increased very rapidly - from $27,982 per company to $43,018, reducing turnover from 18.2 times to 16.6 - a little nearer to normal.

4. Total assets, turned over 5.35 times in 1945-46, were turned over 5.4 times in 1947-48.

5. To look at turnover from another angle, we find, as we should expect, that here is one of the advantages of the big company over the small volume company. The most rapid turnovers were in Group V and Group VII, the largest in their respective types (about 6.4 times for total assets) while the Group I companies had slightly below 4 times.

IV. Receivables.

Table XII brought out the fact that in the past two years receivables had increased by 69 percent in face of a volume increase of 38 percent.

When we compare groups we find no significant differences, though the smaller volume companies do have somewhat larger receivables in proportion to volume of business.

Within groups, however, the differences among companies are often startling. In Group I, e.g., four companies averaged $5,475 while three companies with slightly less volumes of business averaged $17,400 on the books, and oddly enough those with lower averages were in merchandising rather than grain territory. In Group II, two companies of almost identical volumes have respectively $25,700 and $10,500 in accounts receivable. In Group IV, two companies of about the same volume and similar types of business have $34,600 and $18,000 respectively. In Group V one company, slightly below the average of the group, has 17 percent of the receivables of the whole group of fifteen companies; four companies in the group, all in largely grain territory and with somewhat less volume than the average of the group, had more on the books than the other eleven.

All of which raises a question. Is the ratio of receivables to volume of local sales largely a matter of the education of customers - the building and maintenance of habits of keeping obligations paid up?

V. Expense of Operation.

Operating expense during the past two years increased over the 1945-46 figures by $8,883 per company, and total expense by $9,862. Granted that the percentage of increase in expense is less than the percentage of dollar volume increase. The question that continues to assert itself is: How can expense be reduced when dollar volumes decline as sometime they surely will?

How companies vary in this respect is shown in the following figures on operating expense (chosen for this purpose in place of total expense, to get away from interest bills and bad debt allowances, arising from what happened in other years). Here operating expense is computed in cents per dollar of sales.

	Range	Average		Range	Average
Group I	4.89 to 11.27	7.63	Group VI	3.24 to 12.02	5.91
II	3.48 to 8.97	5.59	VII	3.05 to 8.16	4.93
III	1.54 to 10.10	5.26			
IV	2.33 to 10.35	4.82			
V	1.64 to 9.21	3.89			

Note that in Groups I, II and VII, two companies each had an expense ratio more than double that of the low company; in other groups the high company was 3 or more times the low in expense ratio. Granted that these differences are largely due to the differences between grain handling in contrast to small merchandise sales; some companies have built (possibly because of fire) a very efficient plant. Our purpose in raising this question is not at all to intimate that the manager whose operating expense ratio is low is necessarily the most efficient; rather, to suggest to all managers and boards of directors the importance of maintenance of plant as its highest efficiency, the study of improvement of plant setup, and the efficient use of the labor force.